Associated Press, March 2, 2008

WASHINGTON --Bailout is a dirty word in the nation's capital. Lately, efforts by both Democrats and Republicans to clean up the housing mess are getting sullied with the b-word.

An inappropriate use of taxpayer dollars is what President Bush and Treasury Secretary Henry Paulson call some plans in Congress to aid homeowners stung by the mortgage market mess. For their part, Democrats say the Bush administration is more interested in bailing out Wall Street than Main Street.

But despite the toxic reputation of bailouts, more and more lifelines keep getting tossed -- including one administration plan dubbed "Project Lifeline."

With the housing market wheezing and presidential candidates seizing on the crisis, politicians and government officials will likely toss out more proposals, rescue plans and initiatives. Whatever these plans are called, both Democrats and Republicans are being careful to couch their proposals as an effort to aid homeowners -- and not mortgage lenders -- amid an ever-widening economic problem, though it's nearly impossible to aid one without helping the other.

"Anything that can be described as a bailout is going to be dead-on-arrival, so how these proposals are framed is critical to whether or not they even have a chance at enactment," said Jaret Seiberg, a financial services policy analyst with Stanford Group. "It has to be framed as a short-term rescue for the housing market and the economy and not as a way to help individual lenders or investors."

Supporters of a dramatic government response note that there's plenty of precedent. Congress approved an airline industry bailout after the 2001 terrorist attacks, established the Resolution Trust Corp. to mop up after the savings and loan crisis and created the Home Owners' Loan Corp. in 1933 to help borrowers refinance troubled home loans during the Great Depression.

"I would hate for necessary action to get hung up in a debate about what's a bailout or what's not a bailout," said David Abromowitz, a senior fellow with the Center for American Progress, a liberal think tank advancing its own plans for the government to buy troubled loans and foreclosed properties.

Powerful lawmakers including Rep. Barney Frank, D-Mass., and Sen. Christopher Dodd, D-Conn. are advancing similar plans. While many Republicans are skeptical of this idea, Rep. Mark Kirk, R-Ill., has been pushing for a recreation of the Depression-era effort, arguing it would be a short-term intervention to prevent the mortgage market from tumbling too far. He says taxpayers will be paid back in full when the economy and housing market recover.

"If the situation does get worse, we're going to need to take effective action modeled on successful precedent," Kirk said.

Public support isn't guaranteed, especially since foreclosures are far worse in states with weak economies such as Ohio and Michigan, or in places like California and Nevada, where lax lending standards prevailed. Homeowners in states with more stable housing markets -- or borrowers with safer mortgages -- are likely to resent federal assistance to risk takers.

All programs are tricky because someone has to decide who deserves help and who doesn't. While there certainly were borrowers who were duped into unaffordable loans, many falsified their incomes or took "very large risks in order to buy larger houses," said Douglas Elmendorf, a senior fellow at the Brookings Institution.

On Thursday, Senate Republicans blocked a Democratic bid to let bankruptcy courts ease the burden on borrowers who can't make their mortgage payments -- a plan fought intensely by the mortgage industry. The bill also provided $4 billion to communities to buy and rehabilitate foreclosed homes.

Critics have applied the "bailout" label to a Bush administration-negotiated plan to freeze interest rates for some borrowers and to the Treasury Department's now-defunct plan to pull together banks to buy assets from troubled investment vehicles.

The Treasury Department rejects that description. A spokeswoman says there is distinction between a taxpayer-funded bailout and Bush Administration efforts to encourage the banking industry to come up with solutions.

But last month, the Treasury Department's own Office of Thrift Supervision floated a new plan for around 8 million homeowners who owe more than their homes are worth to refinance into government-backed loans. It would allow lenders to share some of the gains if the home were eventually sold at a higher price.

Still, Paulson said Thursday, "I'm not interested in bailing out investors, lenders and speculators."

Millions of homeowners, however, likely are interested in some kind of aid. By the end of next year, 2 million homeowners are likely to lose their homes, estimates Mark Zandi, chief economist at Moody's Economy.com, who also forecasts a nearly 20 percent decline in average U.S. home prices from the peak of the housing boom to the lowest point.

Consumer advocates say prompt action, not semantic debates, is what's needed.

The National Community Reinvestment Coalition, a consumer group, has also been pushing a plan for the government to buy troubled loans and refinance them. It wants the Bush administration to do so on its own, arguing that the overall economic costs will be much less than if the housing market continues to spiral downward.

"There's no bailout of anybody, except maybe the economy," said John Taylor, the group's chief executive.